

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**June 2010**

**OFFICE OF MANAGEMENT AND BUDGET**

**600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

## MESSAGE FROM THE DIRECTOR

Biennium to date general fund revenue collections are 2.9 percent lower than projected, but with low unemployment and strong wage growth, North Dakota continues to be in an enviable position compared to most states. May 2010 nonfarm employment, as reported by Job Service North Dakota, grew by 5,000 jobs since May 2009. Average weekly earnings in private nonfarm employment grew by over 9.0 percent during that time.

Even as the national economy begins its recovery, states continue to struggle with budget shortfalls. Moody's Economy.com reported in its June 2010 *Précis U.S. Macro* publication that "two-thirds of states are already facing budget gaps for fiscal year 2011." States have, for the most part, reduced spending to close budget shortfalls, but some have opted to raise

taxes. As shown on the map below, North Dakota is joined by only a handful of other states that enacted tax cuts for fiscal year 2011. In North Dakota, both individual and corporate income tax rates were reduced during the 2009 legislative session.

State budget difficulties are expected to linger for many states. Moody's predicts that "the overall fiscal condition of state and local governments will be slow to improve....Personal income taxes will show little growth for several months. Collections will remain below trend as losses of investment income are recorded for tax purposes." However, North Dakota is one of the seven states expected by Moody's to lead the nation into economic recovery beginning in fiscal year 2011, as shown on the map below.

## OIL ACTIVITY

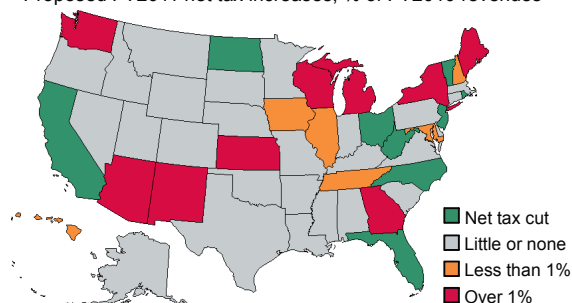
The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production – starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Currently, the price of North Dakota crude is around \$64 per barrel. Production jumped to a new all time record in April. The current rig count is 129, compared to only 41 operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	April 2010	Mar 2010	Feb 2010
ND sweet crude price per barrel	\$71.26	\$71.20	\$67.58
Production (barrels/day)	284,300	277,300	261,200
Drilling permits	106	120	94
Producing wells	4,810	4,736	4,655
Rig count	107	102	93

## Tax Increases Are Relatively Rare

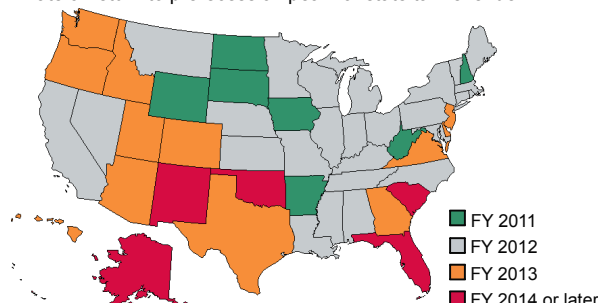
Proposed FY2011 net tax increases, % of FY2010 revenues



Source: NASBO

## Timing of Revenue Recovery

Date of return to prerecession peak for state tax revenue



Sources: Census, Moody's Analytics

Comments or Questions?  
Contact

Pam Sharp, Director

Phone: 701-328-2680

Fax: 701-328-3230

E-mail:

[psharp@nd.gov](mailto:psharp@nd.gov)

Visit the North Dakota web site

[www.nd.gov](http://www.nd.gov)

## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium May 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	48,181,000	35,788,881	(12,392,119)	-25.7%	520,163,000	495,934,641	(24,228,359)	-4.7%
Motor Vehicle Excise Tax	4,242,000	5,335,964	1,093,964	25.8%	35,575,000	50,242,316	14,667,316	41.2%
Individual Income Tax	12,366,000	6,503,106	(5,862,894)	-47.4%	303,808,000	285,498,083	(18,309,917)	-6.0%
Corporate Income Tax	5,197,000	2,787,817	(2,409,183)	-46.4%	96,247,000	65,804,947	(30,442,053)	-31.6%
Insurance Premium Tax	5,500,000	7,077,557	1,577,557	28.7%	29,535,000	29,781,418	246,418	0.8%
Financial Institutions Tax	490,000	19,777	(470,223)	-96.0%	4,750,000	2,801,341	(1,948,659)	-41.0%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*	6,609,000	0	(6,609,000)	-100.0%	24,785,000	38,281,667	13,496,667	54.5%
Gaming Tax	1,638,587	1,127,359	(511,228)	-31.2%	8,043,140	7,935,405	(107,735)	-1.3%
Lottery								
Cigarette & Tobacco Tax	1,897,000	2,034,724	137,724	7.3%	20,864,000	20,639,763	(224,237)	-1.1%
Wholesale Liquor Tax	570,000	622,761	52,761	9.3%	6,042,000	6,717,389	675,389	11.2%
Coal Conversion Tax	2,223,000	1,551,988	(671,012)	-30.2%	18,219,000	17,904,293	(314,707)	-1.7%
Mineral Leasing Fees	1,800,000	1,531,276	(268,724)	-14.9%	11,100,000	8,038,416	(3,061,584)	-27.6%
Departmental Collections	1,845,087	1,974,503	129,416	7.0%	27,437,918	30,628,668	3,190,750	11.6%
Interest Income	684,382	12,095,227	11,410,845	1667.3%	10,473,377	20,640,734	10,167,357	97.1%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers					644,000	1,763,688	1,119,688	173.9%
<b>Total Revenues and Transfers</b>	<b>93,243,056</b>	<b>78,450,940</b>	<b>(14,792,116)</b>	<b>-15.9%</b>	<b>1,451,995,750</b>	<b>1,410,331,101</b>	<b>(41,664,649)</b>	<b>-2.9%</b>

\* Oil and gas production and extraction tax collections totaled \$43.2 million in May. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through May 2010, oil tax collections totaling \$222.6 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2009-11 Biennium May 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2008	May 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	35,509,622	35,788,881	279,259	0.8%	441,554,610	495,934,641	54,380,031	12.3%
Motor Vehicle Excise Tax	6,212,458	5,335,964	(876,493)	-14.1%	60,670,701	50,242,316	(10,428,385)	-17.2%
Individual Income Tax	8,816,980	6,503,106	(2,313,873)	-26.2%	285,130,736	285,498,083	367,347	0.1%
Corporate Income Tax	4,602,139	2,787,817	(1,814,322)	-39.4%	117,379,895	65,804,947	(51,574,948)	-43.9%
Insurance Premium Tax	6,163,879	7,077,557	913,678	14.8%	31,669,226	29,781,418	(1,887,808)	-6.0%
Financial Institutions Tax	195,316	19,777	(175,539)	-89.9%	5,744,405	2,801,341	(2,943,065)	-51.2%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	1,954,913	1,127,359	(827,555)	-42.3%	9,595,854	7,935,405	(1,660,448)	-17.3%
Lottery								
Cigarette & Tobacco Tax	1,786,258	2,034,724	248,466	13.9%	20,639,067	20,639,763	696	0.0%
Wholesale Liquor Tax	633,097	622,761	(10,336)	-1.6%	6,330,520	6,717,389	386,869	6.1%
Coal Conversion Tax	2,024,921	1,551,988	(472,932)	-23.4%	21,879,162	17,904,293	(3,974,869)	-18.2%
Mineral Leasing Fees	1,714,833	1,531,276	(183,557)	-10.7%	10,880,995	8,038,416	(2,842,579)	-26.1%
Departmental Collections	1,516,785	1,974,503	457,718	30.2%	26,597,464	30,628,668	4,031,204	15.2%
Interest Income	1,254,857	12,095,227	10,840,370	863.9%	19,203,590	20,640,734	1,437,144	7.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	316		(316)	-100.0%	675,727	1,763,688	1,087,961	161.0%
<b>Total Revenues and Transfers</b>	<b>72,386,373</b>	<b>78,450,940</b>	<b>6,064,567</b>	<b>8.4%</b>	<b>1,243,951,952</b>	<b>1,410,331,101</b>	<b>166,379,149</b>	<b>13.4%</b>

\* Oil and gas production and extraction tax collections totaled \$43.2 million in May. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through May 2010, oil tax collections totaling \$222.6 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## VARIANCES

May 2010 revenues were \$78.5 million, \$14.8 million less than projected in the legislative forecast. This includes the negative variance of \$6.6 million related to oil taxes. The oil tax variance results from a timing difference between the forecast and actual collections. The forecast assumed the \$71.0 million general fund cap on oil taxes would not be reached until June 2010. Due to higher than anticipated oil price and production, the general fund limit was reached in November 2009. Consequently, no additional oil tax collections will be deposited in the general fund during the remainder of the 2009-11 biennium. Notable variances for the month are as follows:

- **Sales tax** collections for the month are \$12.4 million lower than the legislative forecast, bringing the biennium to date shortfall to \$24.2 million, or -4.7 percent. However, sales tax collections for the biennium to date are 12.3 percent higher than during the first eleven months of the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast - by \$1.1 million for the month and \$14.7 million for the biennium to date.
- **Individual income tax** collections were again lower than anticipated, missing the forecast by \$5.9 million for the month. Biennium to date collections are \$18.3 million below forecast. It appears that 2009 unearned income, such as dividends, interest, and royalties, was lower than anticipated due to the impact of the national recession. However, current income tax withholding on wages continues to be strong, reflecting the state's healthy labor market.
- **Corporate income tax** collections continue to lag the forecast, falling short by \$2.4 million for the month and \$30.4 million for the biennium to date. The majority of North Dakota's corporate taxpayers are national corporations which have been negatively impacted by the national recession.
- **Insurance premium tax** collections exceeded the forecast by \$1.6 million for the month, bringing the biennium to date collections within 1.0 percent of the forecast.
- **Oil and gas tax** collections for the month are \$43.2 million, \$25.4 million more than estimated in the legislative forecast. The legislative forecast assumed April prices of \$47 per barrel and production of 210,000 barrels per day. April prices actually averaged \$71 per barrel and production averaged 284,300 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.
- **Interest income** exceeded the forecast by \$11.4 million for the month, due to the transfer of accrued earnings on the principal of the budget stabilization fund. Pursuant to NDCC Section 54-27.2-01, the balance in the fund may not exceed 10.0 percent of appropriations, which results in a cap of \$324.9 million. Interest and investment earnings are transferred annually to the general fund.

OFFICE OF MANAGEMENT AND BUDGET  
600 EAST BOULEVARD AVE — DEPT. 110  
BISMARCK, ND 58505-0400  
<http://www.nd.gov/fiscal> or [www.nd.gov/omb](http://www.nd.gov/omb)